

CITY OF LA PALMA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2009, through June 30, 2010

TRAFFIC CONGESTION RELIEF FUND

July 1, 2004, through June 30, 2010



JOHN CHIANG
California State Controller

August 2011



JOHN CHIANG
California State Controller

August 17, 2011

The Honorable Ralph Rodriguez
Mayor of the City of La Palma
7822 Walker Street
La Palma, CA 90623

Dear Mayor Rodriguez:

The State Controller's Office (SCO) audited the City of La Palma's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, through June 30, 2010. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2004, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$55,535 as of June 30, 2010, because it did not expend its fiscal year 2006-07 TCRF allocation by June 30, 2008, as required by Streets and Highways Code section 2182.1(g). Therefore, the city must return \$55,535 to the SCO.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Dominic Lazzaretto, City Manager
City of La Palma
Keith Neves, Finance Director
City of La Palma
Jeff Moneda, Director of Public Works
City of La Palma

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	2
Views of Responsible Official	2
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Finding and Recommendation	5
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the City of La Palma's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, through June 30, 2010. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2004, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$55,535 as of June 30, 2010, because it did not expend its fiscal year (FY) 2006-07 TCRF allocation by June 30, 2008, as required by Streets and Highways Code section 2182.1(g). Therefore, the city must return \$55,535 to the SCO.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;

- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of La Palma accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2009, through June 30, 2010.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2004, through June 30, 2010, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$55,535 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on July 20, 2005, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on June 10, 2011. Keith Neves, Finance Director, responded by letter dated July 13, 2011, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of La Palma's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 17, 2011

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2009, through June 30, 2010**

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 376,947	\$ 143,514
Revenues	<u>258,234</u>	<u>148,116</u>
Total funds available	635,181	291,630
Expenditures	<u>(307,957)</u>	<u>(156,955)</u>
Ending fund balance per city	327,224	134,675
Timing adjustment:		
Accrual of June 2010 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	14,066	—
SCO adjustment: ³		
Finding—TCRF expenditure requirement not met	<u>—</u>	<u>(55,535)</u>
Ending fund balance per audit	<u>\$ 341,290</u>	<u>\$ 79,140</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Traffic Congestion Relief Fund. The audit period was July 1, 2004, through June 30, 2010.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
TCRF expenditure
requirement not met**

The city did not expend its fiscal year (FY) 2006-07 Traffic Congestion Relief Fund (TCRF) allocation totaling \$118,430 by June 30, 2008, as required by Streets and Highways Code section 2182.1(g). This code section requires a city to expend its TCRF allocation within the fiscal year following the fiscal year in which the allocation was made. In addition, the code indicates that funds not expended within that period shall be returned to the State Controller's Office (SCO). Our audit found that \$55,535 of the 2006-07 allocation remained as of June 30, 2008.

Recommendation

The city must return the TCRF allocation, in the amount of \$55,535, to the State Controller's Office, ATTN: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City's Response

This is in response to your draft report received on June 22, 2011. The overstated fund balance as of June 30, 2008 in the Traffic Congestion Relief Fund of \$55,535 was caused by an unexpected delay in a capital Improvement project for the City's residential pavement rehabilitation program. In retrospect, the City should have expensed the \$55,535 from expenditures in its Special Gas Tax Street Improvement Fund which had \$234,280.06 that qualified. Since these funds have already been used on the delayed project in Fiscal Year 2008-09 the City is asking if the State Controller's office can reduce our Fiscal Year 2011-12 Streets and Highways Code Section 2103 allocation by the \$55,535. Thank you and I am looking forward to your response.

SCO's Comment

The city agrees with our finding in its response to our draft audit report, but it requests that the \$55,535 finding be offset against its FY 2011-12 TCRF allocation. Unfortunately, as the financial activities reported each separate fiscal year are mutually exclusive within the TCRF, the audit finding from one fiscal year cannot be offset against an allocation from another fiscal year. Consequently, the city must return the TCRF allocation, in the amount of \$55,535, to the SCO.

**Attachment—
City's Response to
Draft Audit Report**



CITY OF
LA PALMA



KEITH D. NEVES
FINANCE DIRECTOR

Phone 714.690.3323 Fax 714.523.2141
7822 Walker Street • La Palma • California 90623-1771
keithn@cityoflapalma.org • www.cityoflapalma.org

July 13, 2011

State Controller's Office
Local Government Audits Bureau
Division of Audits,
Post Office Box 942850
Sacramento, CA 94250-5874

Subject: FY 2006-07 Traffic Congestion Relief Fund (TCRF)

Dear Steven Mar:

This is in response to your draft report received on June 22, 2011. The overstated fund balance as of June 30, 2008 in the Traffic Congestion Relief Fund of \$55,535 was caused by an unexpected delay in a capital improvement project for the City's residential pavement rehabilitation program. In retrospect, the City should have expensed the \$55,535 from expenditures in its Special Gas Tax Street Improvement Fund which had \$234,280.06 that qualified. Since these funds have already been used on the delayed project in Fiscal Year 2008-09 the City is asking if the State Controller's office can reduce our Fiscal Year 2011-12 Streets and Highways Code Section 2103 allocation by the \$55,535. Thank you and I am looking forward to your response.

Sincerely,

Keith D. Neves
Finance Director
City of La Palma

www.cityoflapalma.org
7822 Walker Street
La Palma, CA 90623-1771

PHONE
714 690 3300
FAX
714 523 2141

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>